A Monthly Report from The Conference Board

INTERNATIONAL ECONOMIC SCOREBOARD

The Conference Board

APRIL, 1984

R4105-6 A

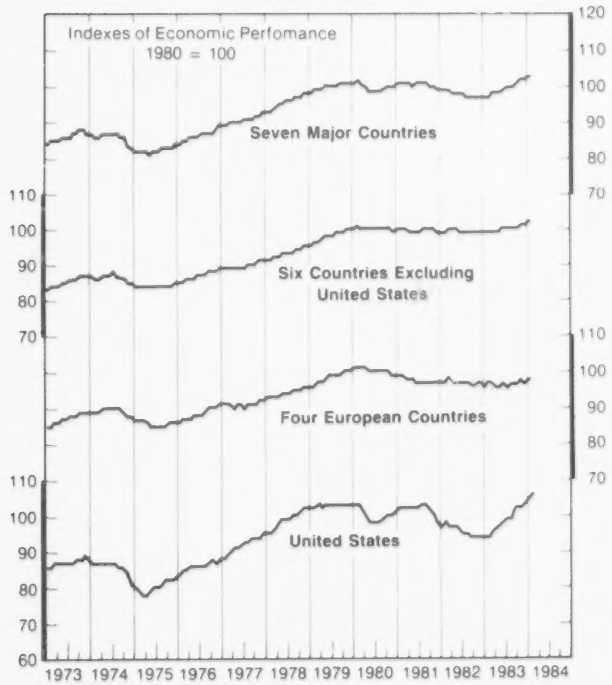
SUMMARY

Vigorous growth continues to characterize the latest leading indexes for five of the seven major industrial countries. Japan has forged ahead to the top position, with a growth rate of 14% in its leading index. The leading indexes for the United States, France, Canada and West Germany are showing growth rates in the 8 to 10% range. Slow growth, at 4%, characterizes the indexes for the United Kingdom and Italy. Growth rates in the economic performance indexes are substantially lower than in the leading indexes in most countries, as is usually true when an expansion gets under way.

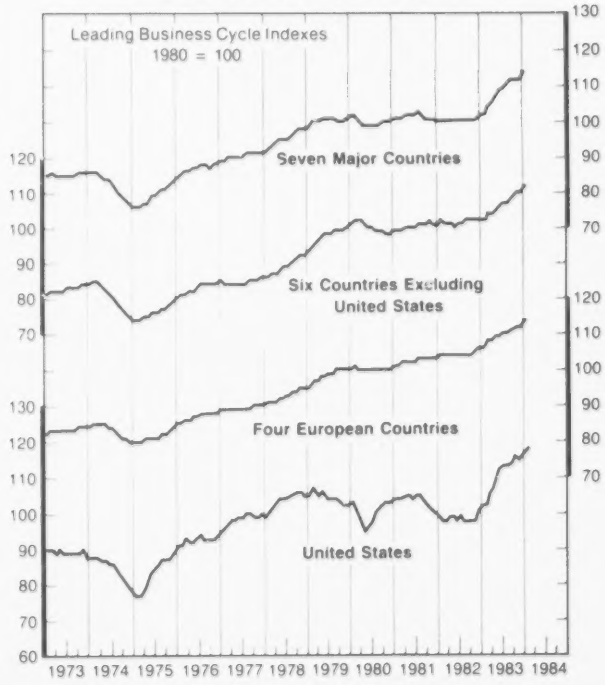
		*Indexes of Economic Performance Growth Rates**			*Leading Business Cycle Indexes Growth Rates**				
	Ten-year Growth Rate 1969-79	*6 mos. ago*	*3 mos. ago*	*Latest month*	*6 mos. ago*	*3 mos. ago*	*Latest month*	*Current Reading on the Cycle*	*Latest Month Covered*
	annual rates, percent								
United States	3	8	11	12	18	14	10	Strong expansion continuing	Feb.
Canada	4	6	7	6	17	12	9	Strong expansion continuing	Jan.
Japan	5	3	4	3	7	12	14	Expansion continuing	Jan.
United Kingdom	2	0	0	1	4	3	4	Slow recovery under way	Jan.
West Germany	3	- 1	2	5	9	9	9	Expansion continuing	Jan.
France	4	0	0	3	6	7	11	Expansion continuing	Jan.
Italy	3	- 5	- 1	- 2	3	6	4	Leaders advancing; economy weak	Oct./Nov.
7 countries	3	4	5	7	13	12	10	Expansion continuing	Jan.
6 countries ex. U.S.	4	1	2	4	7	8	10	Expansion continuing	Jan.
4 European countries	3	0	0	3	6	6	8	Expansion continuing	Jan.
3 countries ex. Europe	4	6	8	9	17	15	12	Expansion continuing	Jan.

*Annual rate based on ratio of current month's index to average index over the preceding 12 months.

Where We Are



Where We're Headed



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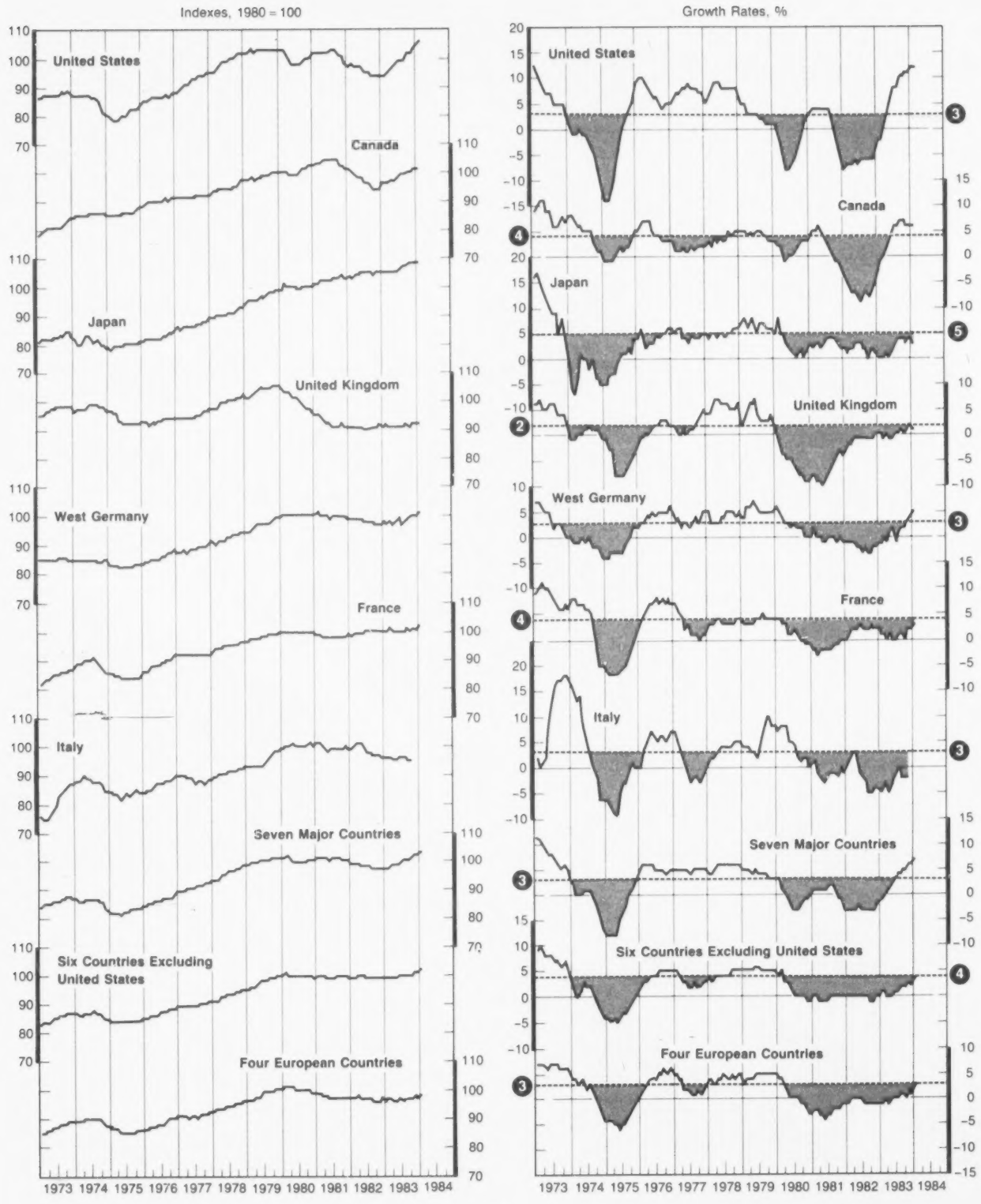
Where We Are

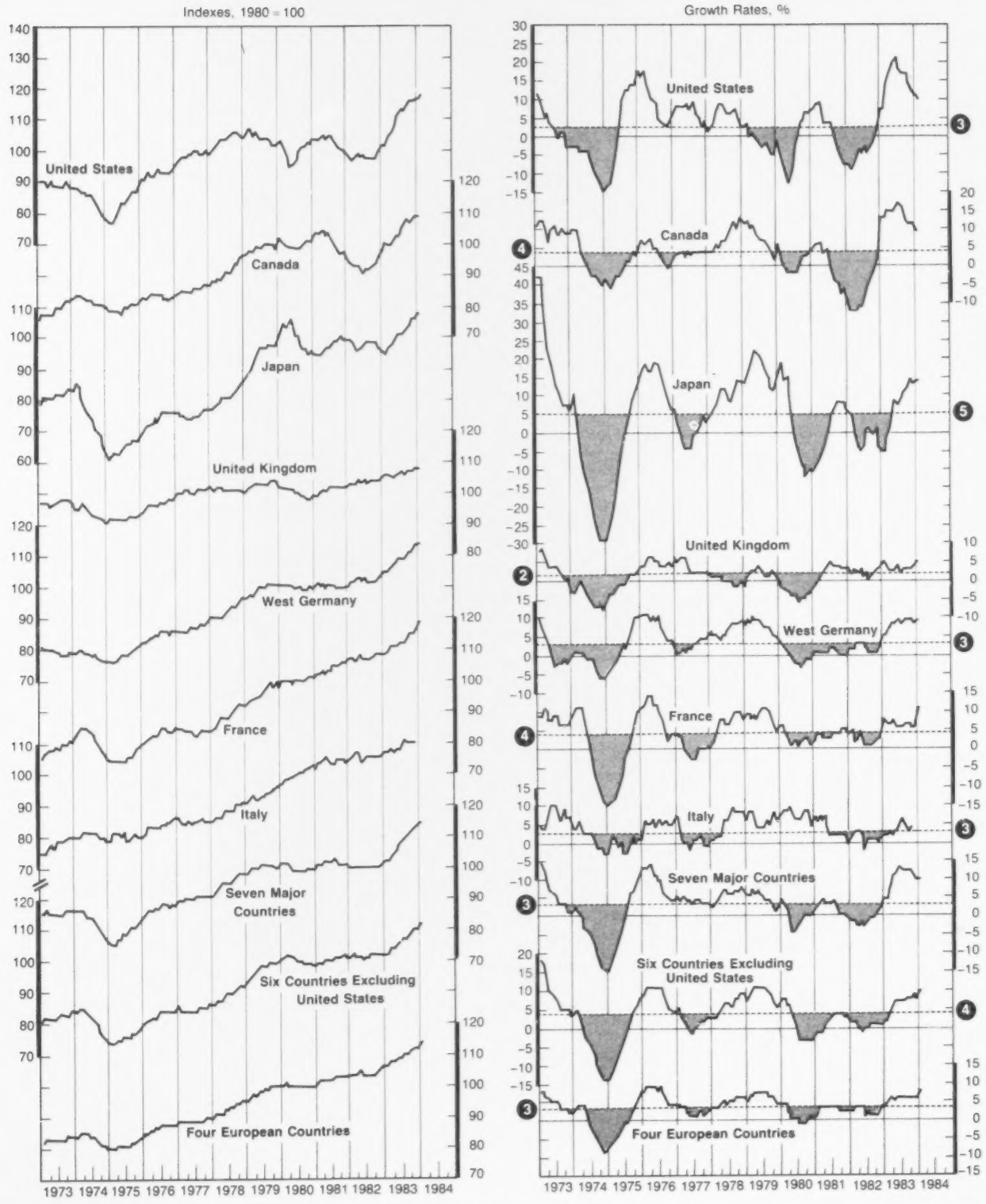
Indexes of Economic Performance



Note: Horizontal dashed lines are average growth rates for 1969-79 in the index and in real GNP
Source: The Conference Board

Where We're Headed

Leading Business Cycle Indexes



Note: Horizontal dash lines are average growth rates for 1969-79 in the index and in real GNP.
Source: The Conference Board

CURBING COST INFLATION: SOME INTERNATIONAL COMPARISONS

The stabilization of unit costs of production last year was one of the great, but unsung, achievements of recent U.S. economy policy. During 1983, the combination of restrained increases in money wages and continued productivity growth served to hold the increase in unit labor costs in the United States to only 1.3 percent. This increase was the lowest since 1965. Compared with unit-cost advances at rates of 11 percent in 1979 and 1980, this relative stability was basic to the sharp slowdown in the rate of inflation, to the improved outlook for profits, and to the economic expansion now under-way.

The factors underlying this development go back to the recession of 1981-1982; to the cost-saving and productivity-enhancing efforts that the recession induced; and to the concurrent slackening in demand for labor. Under threat of insolvency, management and labor focused their efforts and their imagination on ways to increase efficiency, reduce overhead, and preserve jobs. The cost-stabilizing benefits of these developments were largely realized after the recovery got under-way in late 1982. By the second half of 1983, the cost inflation of the 1960s and 1970s had been virtually stopped.

Similar progress in curbing cost advances has been achieved in other countries. In Japan, for example, labor costs per unit of output, which had been rising at a nine percent annual rate in 1982, rose only one percent in the second quarter of 1983 and fell in the third. In West Germany, while unit costs rose about 4-½ percent in 1982, they fell from quarter to quarter in 1983. In the United Kingdom, unit labor costs were growing at a 5-½ percent rate in 1982. The advance slowed to a 2-½ percent rate in 1983, the lowest since the early 1970's.

These are notable results, partly because of the fundamental long-run relationship tying costs and prices together. In addition, they have significant implications for profits and hence for investment. In the U.S., prices decelerated as well as costs, but costs decelerated more. Hence profits improved last year from long-depressed levels (see chart).

Price and cost developments of a similar character have occurred in the U.K., West Germany, and Japan. In all three countries, indicators of profit margins have moved favorably in recent quarters. This improvement in margins, together with growing markets, accounted for the speed of the rebound in total profits. The table discloses that corporate profits in the U.S., after allowing for inflation, increased at a 43 percent annual rate from the first quarter to the fourth quarter of 1983. Furthermore, the cash flow of businesses has been strengthened by the liberal treatment of depreciation and other tax changes of recent years. After-tax economic profits relative to the nation's output, only a year after recession, are now approaching the highest levels of the 1970s. This in turn has contributed to significant expansion in plans for capital investment, which if carried through would be promising for future productivity growth.

GROWTH IN REAL CORPORATE PROFITS SINCE THEIR CYCLICAL LOWS, FOUR COUNTRIES

Country (Units)	*Cyclical Low*	*Latest Reading*	*Percentage Change (annual rate)*
United States (bill. 1972 $)	51.7 (I Q 83)	67.5 (IV Q 83)	+43
United Kingdom (mill. 1980 £)	5,454 (I Q 82)	7,851 (III Q 83)	+27
West Germany[1] (10 mill. 1980 DM)	6,161 (III Q 82)	6,429 (III Q 83)	+ 4
Japan (100 mill. 1975 yen)	44,966 (I Q 83)	52,237 (IV Q 83)	+22

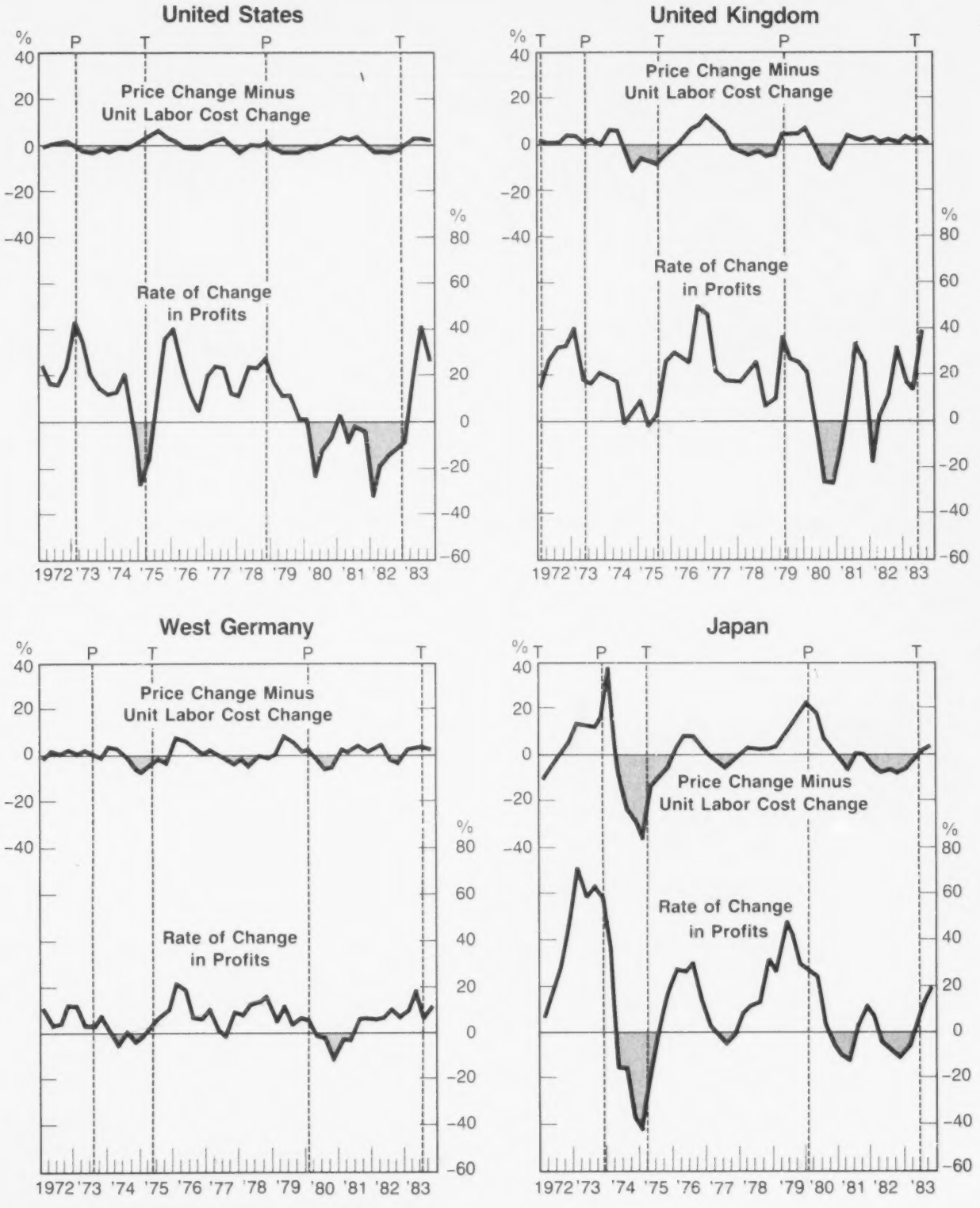
[1]Data represent entrepreneurial and property income.

A rebound in total profits occurred in the other countries too. Underlying the favorable developments in profits in all these countries was, of course, the important role played by productivity growth. Towards the end of recessions and during periods of cyclical recovery, it is customary for productivity—output per worker-hours—to rise rapidly, and it did. It is also customary for this rise to have a significant effect in slowing down the rise in labor costs per unit of output, and it did. Thus productivity growth had an important stabilizing effect on costs, and thereby on prices. And, of course, it stimulated the growth of profits. This, too, is a customary consequence.

The rapid productivity growth occurred while employment was growing at an unprecedented rate. Four million jobs were created in the U.S. in 1983. Productivity advance is no necessary bar to expanded employment.

It is plain that productivity growth helped to bring about less inflation in costs and prices in this country and other important industrial nations. The record also supports the view that if we are to look forward to an era of prosperity without inflation in the 1980s, we would be well advised to seek high rates of productivity growth. This, however, will not come easily. The present expansion in the U.S. is almost one-and-a-half years old. From the end of World War II to 1981, there were six peacetime expansions, averaging about three years in length. The current expansion is thus at about the halfway mark relative to this standard. Business cycle history amply documents that as the economy moves into the second half of an expansion productivity improvements fade rapidly. At about the same time, hourly compensation generally grows more rapidly. This combination customarily spells quicker advance in unit costs and prices. Hence we are approaching that stage of the business cycle when special efforts will be needed simply to hold on to the gains that already have been made in reducing costs and limiting inflation.

Price/Cost Differences and Profits, Four Countries



Note: Vertical lines represent growth cycle peaks and troughs

Source: For the United States, Natinal Bureau of Economic Research. For other countries, Center for International Business Cycle Research.

INDEXES, SEVEN COUNTRIES, 1982-83

	U.S.		Canada		Japan		U.K.		West Germany		France		Italy		7 Countries		6 Countries ex. U.S.		4 Countries Europe	
	Indexes, 1980 = 100																			
	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.
Dec. 82	94	100	94	96	105	96	92	104	97	104	100	108	96	106	97	101	99	102	97	105
Jan. 83	94	102	96	98	105	95	91	105	98	105	100	109	96	107	97	102	99	102	96	106
Feb. 83	94	102	96	100	105	94	91	106	97	105	100	111	96	107	97	102	99	102	97	107
Mar. 83	95	105	96	100	105	96	91	106	98	106	100	111	96	108	98	104	99	104	97	108
Apr. 83	96	107	97	102	105	97	91	105	97	107	100	112	95	107	98	105	99	104	96	108
May 83	97	109	97	103	105	99	91	106	98	108	100	112	95	108	98	107	99	105	96	109
June 83	98	112	98	103	105	101	91	106	99	109	100	112	96	108	99	108	100	106	97	109
July 83	99	113	99	105	106	101	91	107	97	109	100	112	96	110	100	109	100	107	96	110
Aug. 83	99	113	99	106	107	102	91	106	98	110	100	113	96	110	100	110	100	107	97	110
Sept. 83	101	114	100	108	107	103	92	107	99	111	101	114	95	110	100	111	100	108	97	111
Oct. 83	102	116	100	107	108	104	91	107	99	111	100	115	95	110	101	112	100	109	97	111
Nov. 83	102	116	100	108	108	106	92	107	100	112	101	115		110	102	112	101	110	98	112
Dec. 83	103	116	101	109	108	106	92	108	100	113	101	116			102	113	101	110	97	112
Jan. 84	105	117	101	109	108	108	92	108	101	114	102	119			103	114	102	112	98	114
Feb. 84	106	118																		
	Growth Rates, Percent																			
Dec. 82	- 5	3	- 5	5	1	-4	0	3	- 2	3	2	3	- 4	1	- 2	2	- 1	1	- 1	3
Jan. 83	- 2	7	- 2	11	0	-5	0	4	- 1	5	2	5	- 5	2	- 1	4	- 1	2	- 1	4
Feb. 83	- 2	7	- 1	13	0	-5	0	4	- 1	5	1	7	- 4	2	- 1	4	- 1	2	- 1	5
Mar. 83	0	11	0	13	0	-1	- 1	4	0	6	1	7	- 3	3	0	7	0	4	0	6
Apr. 83	2	14	2	15	1	1	0	3	- 1	7	0	7	- 5	2	1	9	0	5	- 1	5
May 83	5	17	3	15	0	6	- 1	3	1	8	1	8	- 4	3	2	11	0	6	0	6
June 83	7	20	5	15	1	8	- 1	3	2	8	0	6	- 2	3	3	12	1	7	0	6
July 83	8	21	6	17	3	7	0	4	- 1	9	0	6	- 1	5	4	13	1	7	0	6
Aug. 83	8	18	6	16	4	8	0	2	1	8	1	6	0	6	4	12	2	7	1	6
Sept. 83	10	17	7	16	4	11	1	3	2	9	1	7	- 2	5	5	12	2	8	1	6
Oct. 83	10	17	7	12	4	12	0	3	2	9	0	7	- 2	3	5	12	2	8	0	6
Nov. 83	11	14	6	11	3	14	1	3	3	9	2	6		4	6	11	3	9	2	6
Dec. 83	11	12	6	11	4	13	2	4	4	8	2	6			6	10	2	8	1	6
Jan. 84	12	11	6	9	3	14	1	4	5	9	3	11			7	10	4	10	3	8
Feb. 84	12	10																		
	Ten Year Annual Growth Rate, Percent																			
1969-79	3	3	4	4	5	5	2	2	3	3	4	4	3	3	3	3	4	4	3	3

THE INTERNATIONAL ECONOMIC INDICATOR SYSTEM

Each issue of the *Scoreboard* includes indexes of economic performance for the major industrial nations as well as the leading indexes. The economic performance indexes are composites of such series as real GNP, industrial production, employment and sales—what analysts call "coincident" series, because they *define* the business cycle.

The leading indexes are composites of such series as new orders, construction contracts, corporate profits and stock prices—indicators that usually anticipate changes in production and employment by several months. Thus the indexes of economic performance tell us the current status of the business cycle, i.e., where we are, while the leading indexes tell us where the economy is headed.

Experience has shown that when the leading index begins to rise faster, it is a fairly safe rule that the economy will soon begin to rise faster too—typically after three or four months. When the leading index begins to rise more slowly or to decline, the economy is likely to follow suit shortly thereafter. (For details, see "What the Leading Indicators Indicate," *Across the Board*, April 1980 and *Business Cycles, Inflation and Forecasting*, Ballinger Publishing Co., 1983.) Considerable variation in the length of lead is to be expected, however. Constant monitoring is needed to make effective use of the system and get early warnings of recessions and recoveries, changes in foreign trade flows, and new inflationary trends.

The indexes for the seven major industrial nations were developed by Geoffrey H. Moore and Philip A. Klein, and are maintained by the Center for International Business Cycle Research at the Columbia Business School. (The U.S. indexes used here differ slightly from the indexes reported monthly by the U.S. Dept. of Commerce.) To facilitate analysis the indexes are adjusted so their long-run growth rates, 1969-79, are equal to those in real GNP in the country concerned. These growth rates are shown at the bottom of the table on the back page and by horizontal lines on the right panel of the charts on pages 2 and 3.

Another Reminder, Revisions:

Beginning January 1984, the indexes are shown with 1980 = 100 rather than 1970 = 100. The long-run growth rate (see above) is for 1969-79, not 1966-76. The composite indexes for groups of countries are weighted by each country's GNP in 1980, not 1970, and a new index is shown for the U.S., Canada and Japan. A few changes have been made in the components of the indexes.

For More Information

To find out more about this indicator system and the availability of detailed data for each country please address inquiries to:

Center for International Business Cycle Research
Graduate School of Business, Columbia University
New York, New York 10027
Telephone: 212-280-2916

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SUMMARY

The leading indexes continue to give an optimistic reading on future growth of the seven major industrial countries. The composite leading index for all seven countries registered an 11% annual growth rate in February, down slightly from 12% six months before. The economic performance index for the group of seven was rising at a 6% rate, up from 4% six months earlier. Most of the strength in these indexes came from Japan, the U.S., Canada and West Germany. France, Italy and the United Kingdom displayed less exuberance.

	Ten-year Growth Rate 1969-79	Indexes of Economic Performance Growth Rates* 6 mos. ago	3 mos. ago	Latest month	Leading Business Cycle Indexes Growth Rates* 6 mos. ago	3 mos. ago	Latest month	Current Reading on the Cycle	Latest Month Covered
		annual rates, percent							
United States	3	10	11	11	17	14	10	Expansion continuing	Mar.
Canada	4	6	6	4	17	12	8	Expansion continuing	Feb.
Japan	5	4	3	4	8	14	15	Expansion continuing	Feb.
United Kingdom	2	1	3	2	2	3	2	Slow recovery under way	Feb.
West Germany	3	1	3	4	8	10	8	Expansion continuing	Feb.
France	4	0	- 1	- 1	6	7	5	Leaders advancing; economy weak	Feb.
Italy	3	- 3	1	3	3	5	4	Leaders advancing; economy weak	Nov./Dec.
7 countries	3	4	6	6	12	12	11	Expansion continuing	Feb.
6 countries ex. U.S.	4	2	3	2	7	9	9	Expansion continuing	Feb.
4 European countries	3	1	2	1	6	6	6	Expansion continuing	Feb.
3 countries ex. Europe	4	6	8	9	15	15	15	Expansion continuing	Feb.

*Annual rate based on ratio of current month's index to average index over the preceding 12 months.

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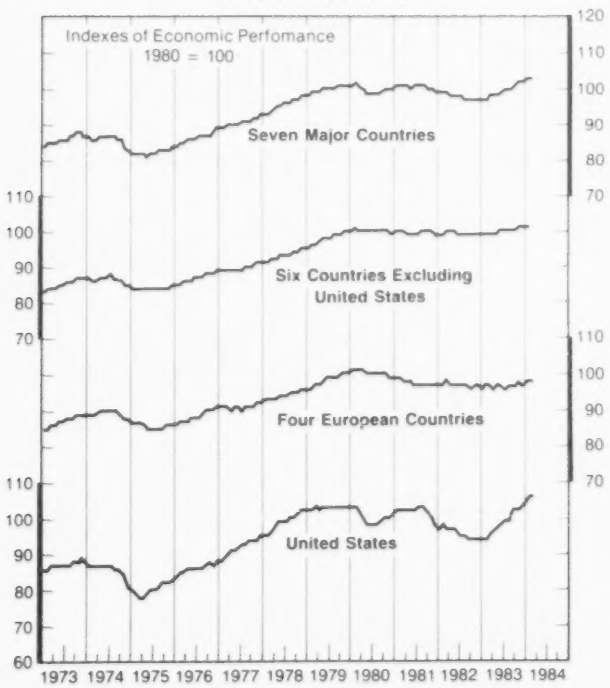

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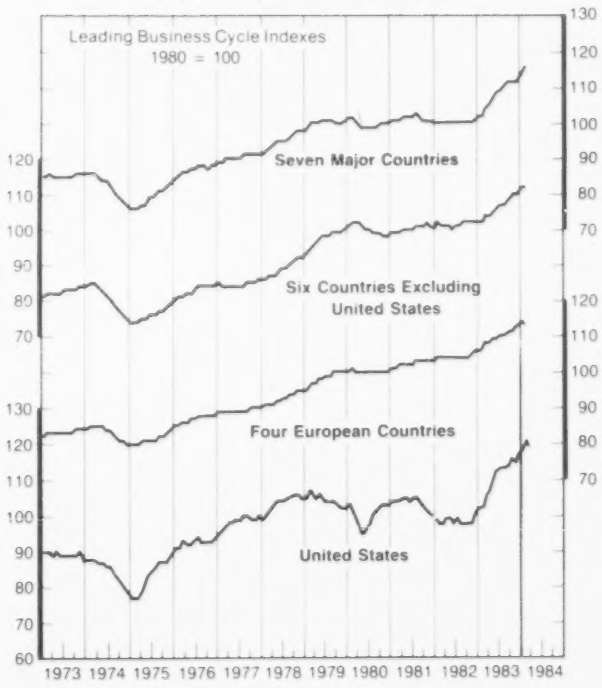

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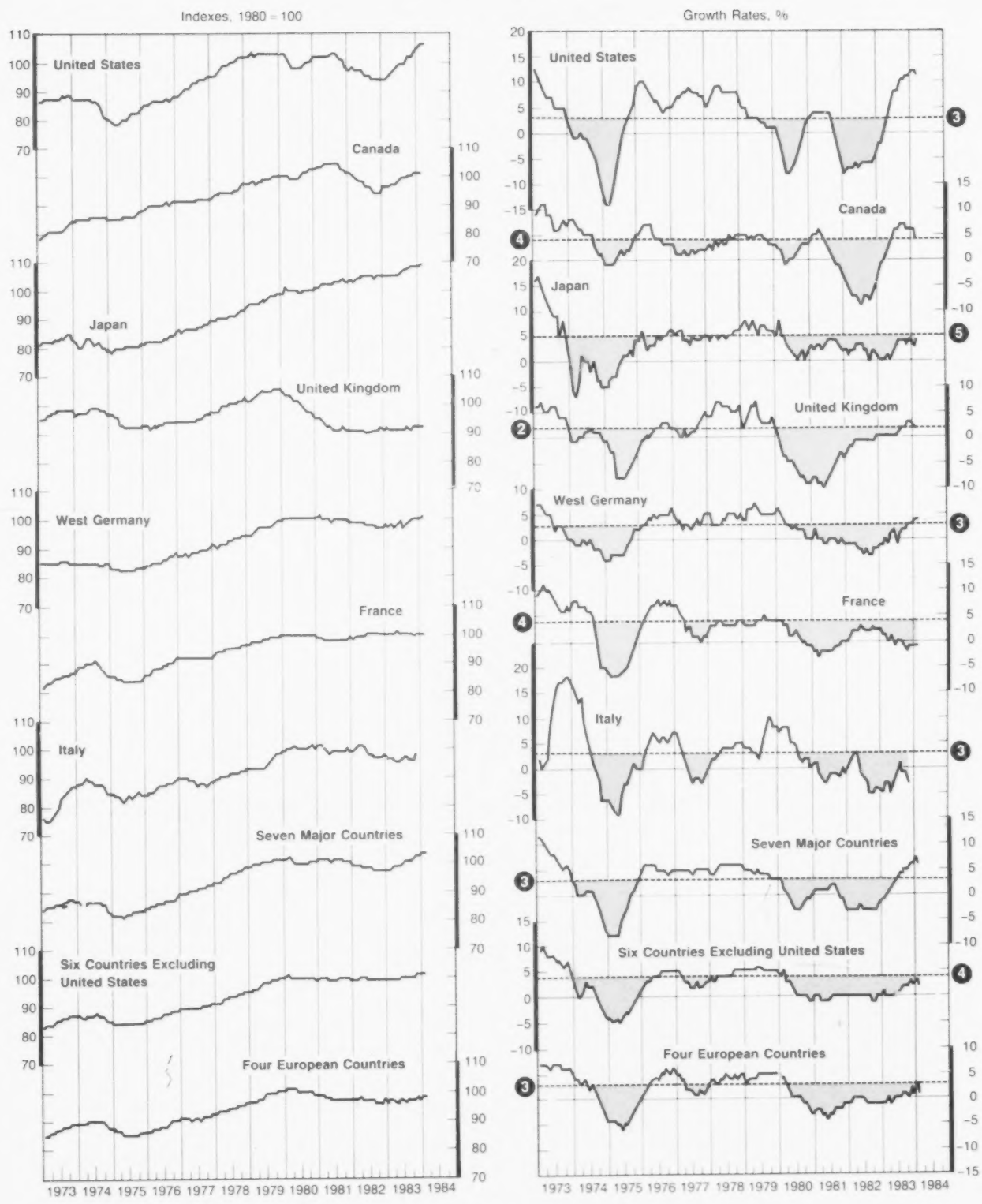
Where We Are

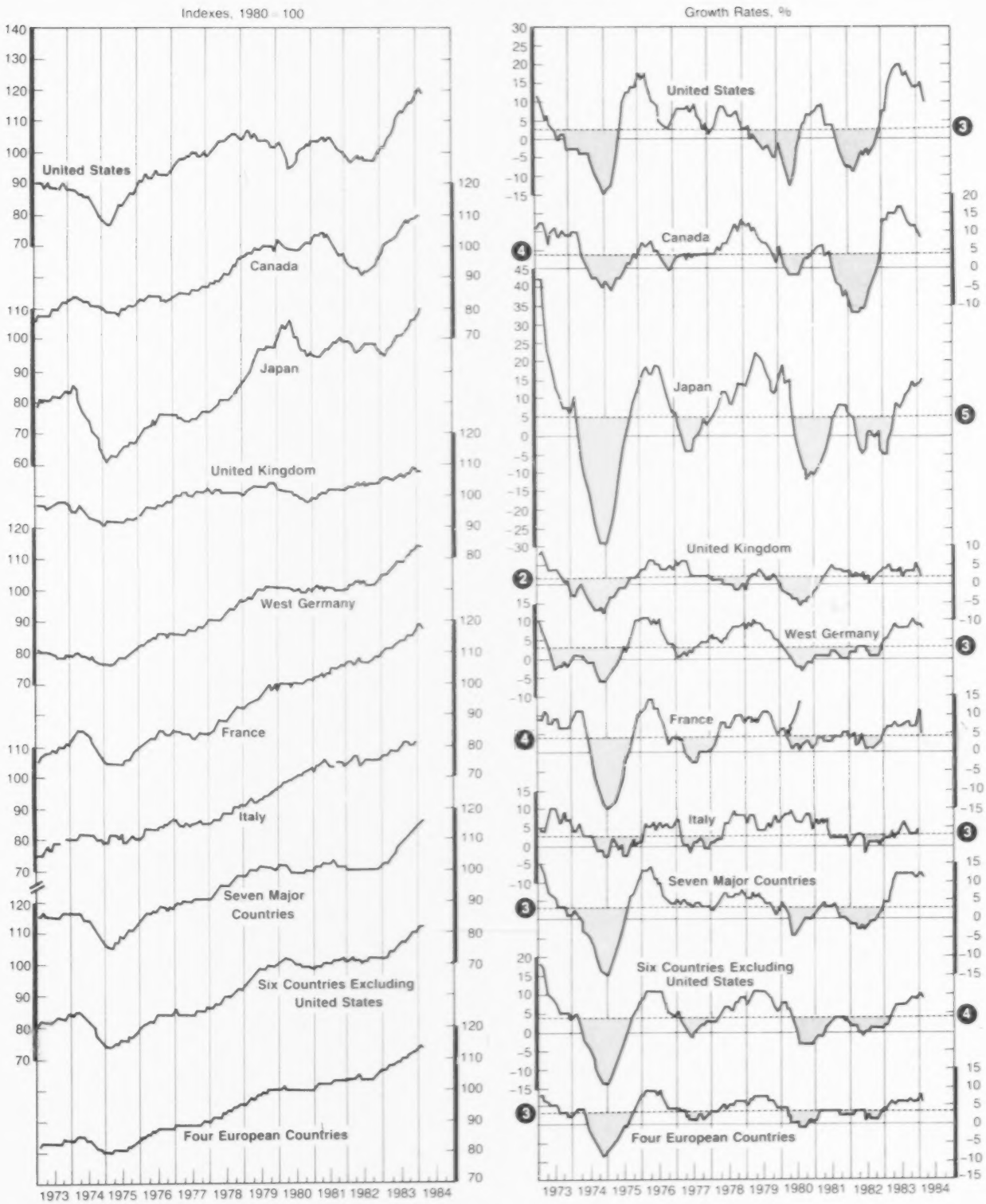
Indexes of Economic Performance



Note: Horizontal dashed lines are average growth rates for 1969-79 in the index and in real GNP.
Source: The Conference Board

Where We're Headed

Leading Business Cycle Indexes



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		Perf.	Lead	Perf.	Lead	Perf.	Lead	Perf.	Lead	Perf.	Lead	Perf.	Lead	Perf.	Lead	Perf.	Lead	Perf.	Lead	Perf.	Lead
Dec.	82	94	100	94	96	105	96	91	104	97	104	100	108	97	106	97	101	99	102	97	106
Jan.	83	94	102	96	99	105	95	91	105	98	105	100	109	96	107	97	102	99	102	96	106
Feb.	83	94	102	96	100	105	94	91	106	97	105	100	111	96	107	97	102	99	102	97	107
Mar.	83	95	105	96	101	105	96	91	106	98	106	100	111	96	108	98	104	99	104	97	108
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Jan.	84	105	118	101	110	108	108	92	108	100	114	100	119			103	115	101	112	98	114
Feb.	84	106	121	101	110	109	110	92	108	101	114	100	117			103	116	101	112	98	113
Mar.	84	106	119																		
		Growth Rates, Percent																			
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Nov.	83	11	15	6	12	3	14	3	3	3	10	- 1	7	3	3	6	12	3	9	2	6
Dec.	83	11	14	6	11	4	13	3	5	3	9	- 1	7		4	6	11	2	9	1	7
Jan.	84	12	14	6	9	3	14	2	4	4	9	- 1	11			7	12	3	10	3	8
Feb.	84	12	15	4	8	4	15	2	2	4	8	- 1	5			6	11	2	9	1	6
Mar.	84	11	10																		
		Ten Year Annual Growth Rate, Percent																			
1969#79		3	3	4	4	5	5	2	2	3	3	4	4	3	3	3	3	4	4	3	3

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The indexes for the seven major industrial nations were developed by Geoffrey H. Moore and Philip A. Klein, and are maintained by the Center for International Business Cycle Research at the Columbia Business School. (The U.S. indexes used here differ slightly from the indexes reported monthly by the U.S. Dept. of Commerce.) To facilitate analysis the indexes are adjusted so their long-run growth rates, 1969-79, are equal to those in real GNP in the country concerned. These growth rates are shown at the bottom of the table on the back page and by horizontal lines on the right panel of the charts on pages 2 and 3.

Another Reminder, Revisions:

Beginning January 1984, the indexes are shown with 1980 = 100 rather than 1970 = 100. The long-run growth rate (see above) is for 1969-79, not 1966-76. The composite indexes for groups of countries are weighted by each country's GNP in 1980, not 1970, and a new index is shown for the U.S., Canada and Japan. A few changes have been made in the components of the indexes.

For More Information

To find out more about this indicator system and the availability of detailed data for each country please address inquiries to:

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